THE 1995 FARM BILL ENVIRONMENT

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Public policy is shaped by many influences, chief among them the economic, social and political setting within which the options are debated. A review of the major features of the policymaking environment is, therefore, a useful point of departure for assessing the likely course of future policy. This is as true for farm policy as it is for policy relating to any other major national issue.

The policy environment consists of two major elements:

- The past—represented by the legacy of past policies.
- Outlook for the future—represented by present and prospective needs and circumstances.

Policy formulation emerges from a blend of these influences. The evolutionary course of farm policy is indicative of how important the accumulated experience of the past has been. While more immediate circumstances are always instrumental in shaping the twists and turns in farm policy, these changes have been tightly governed by the past. We begin, therefore, by considering some lessons of the past that can be expected to give direction and emphasis to the policy that emerges in 1995.

Lessons of the Past

With a history as rich as that of farm policy, there are many lessons on which to draw. While there are always differences of interpretation in what the past means for the future, they are far less than the differences that separate forecasts of an unknown future. As a result, lessons of the past are often more persuasive in guiding decisions. Some lessons confirm that earlier programs have worked well and have achieved their purposes while others indicate the opposite. Both lessons are instructive. Likewise, recent lessons are often more influential than those of the more distant past since they are more likely to be relevant to the future.

Five of these lessons, lessons that are likely to govern the coming farm policy debate, are described below.

Coalitions Are Critical

Coalitions have always been important to the passage of farm legislation. The very nature of the Agricultural Adjustment Act and the parade of omnibus farm legislation that has followed in its wake have been dependent on successfully forming coalitions of diverse commodity interests. As production agriculture became a smaller part of the growing national economy and needed to look beyond the farm gate for political support, it formed coalitions with other interests including domestic anti-poverty groups, international hunger organizations, and agribusiness.

With the continued shrinkage of the farm population, the commercialization of production agriculture, the globalization of food and agricultural markets, and the shifting nature of national priorities, coalitions are likely to be all the more important to the passage of farm legislation in the future. Agricultural leaders will need to look to those issues wherein their interests coincide with others (such as environmental protection) and to define their common ground.

Limitations of Domestic Farm Policy

It has become more evident in recent years that the farm economy is being impacted at least as much by policies and events outside agriculture (and often outside the nation) as by farm policy. The effect on the farm economy of oil cartels, inflation in the general economy, shifting exchange rates, and the economic growth rates of other countries often completely overshadow the impact of the farm programs. As a result, it has become increasingly less practical to think in terms of treating the U.S. farm sector as if it could be manipulated in isolation from the influence of global market forces.

This lesson has been reinforced over the past decade by the inability of large-scale acreage control measures to have other than a short-term influence over domestic commodity prices. U.S. acreage idling programs were designed in large measure to strengthen domestic prices. In an era in which domestic farm economies were far more self-contained and inward looking than they now are, these programs generally worked. However, a review of the U.S. experience since about 1980 indicates that this is no longer the case. While the United States has reduced acreage planted to corn, soybeans and wheat during the past fifteen years through a combination of annual and long-term acreage reduction programs, the farm prices of these commodities have trended downward rather than rising. And, there is little mystery about why this has occurred. In the case of both wheat and oilseeds, foreign producers expanded production while the United States was contracting, thereby substituting foreign exports for those from the United States. The resulting loss of U.S. market share effectively offsets the impact of reduced acreage on price. In recognition of this, commodity organizations that were once advocates of the aggressive use of annual acreage idling programs have grown far more cautious in calling for their use.

Competitiveness in International Markets

The opening of U.S. agriculture to the global marketplace has done more than redefine the limits of domestic farm policy. It has also established that a central objective of these policies must be to move the sector toward achieving greater competitiveness in world markets. U.S. farm policy began moving down this road with the 1985 farm bill and reaffirmed it in 1990. However, U.S. policy has been schizophrenic in making this adjustment. While recognizing the importance of exports and the need to allow prices to move in response to market forces, as noted above, U.S. policies have also restricted production through the use of acreage retirement to the point that U.S. competitiveness has suffered. This inconsistency needs to be resolved in the 1995 farm bill.

The need for increased emphasis on promoting international competitiveness has another implication that adds to the complexity of dealing with the issue. The United States cannot expect to be competitive in the production and marketing of all agricultural products, including some that have been protected under past policies. Thus, to the extent international competitiveness becomes a key determinant of U.S. farm policy, it will be necessary to reduce or eliminate support for some commodities. This will not be easy, particularly when the farm bloc cannot afford further erosion of the traditional farm coalition.

Market Orientation

Agricultural commodity policy has gradually become more market oriented over the past two decades. Examples of this progression are adoption of the deficiency payment concept in 1973; cutting the milk price support level free of parity in 1981; lowering loan rates and linking them to a moving average of market prices in 1985; and the initiation of flexible acreage in 1990. While none of these measures was adopted without opposition, all have proven to be workable and have become accepted elements of current policy.

Conversely, measures taken to control production or otherwise restrict the functioning of agricultural markets have performed poorly. The whole herd buyout, the milk diversion program, the payment-in-kind program, and the production quotas applied to several commodities are examples of programs that, at their best, provided but temporary relief for short-term supply problems while contributing little or nothing to longer-term adjustments.

Beyond what has occurred in U.S. agricultural policy, markets are assuming an enlarged role in economic systems worldwide. The disintegration of the planned economies of the former Soviet Union and Eastern Europe, the economic reforms of China and a number of other developing countries, the moves away from socialization in Western Europe, and even the election of President Clinton under the banner of a New Democrat are all part of a common pattern whereby market forces are viewed as the principal engine of economic policy.

This is not to say that market solutions are always preferred by the electorate over collective solutions; clearly they are not. And, in fact, an increased dependence on market solutions will probably lead to calls for increased public supervision of these markets. But for public intervention in the marketplace to be accepted, there must be a widely-supported public purpose for doing so. And for a large segment of the public, the purpose of traditional farm policy is becoming highly suspect.

Consistency of Purpose

While it cannot be said that all farm policy is driven by a single purpose, it has not strayed far from its central objective of stabilizing the nation's farm economy. Ensuring the overall economic health of the farm sector has been its principal concern over the past half century or more. It has achieved this by supporting the price of program commodities or by direct payments tied to commodity prices. As a result, program benefits have been roughly proportional to the volume of production, at least up to certain legislated limits.

From time-to-time, however, farm programs have been used to achieve other purposes, or at least they have been justified on this basis. While this can sometimes be made to work—and the ever present need to draw other interests into the coalition of supporters provides a continuing temptation to try—the record is not encouraging. Preservation of the family farm, development of rural communities, feeding the hungry of the world, and protection of the environment are some of the many subsidiary purposes that have been linked to farm policy in the past. While at least some of these objectives were attained in some measure, eventually it came to be understood that the consistency of purpose was far less than initially thought and, as a result, farm policy contributed far less to the attainment of these secondary objectives than originally hoped.

The debate over the "decoupling" proposal in the late 1980s is perhaps illustrative. Farm program benefits under this proposal were to have been disconnected from the level of production and connected to some other (not very clearly defined) characteristic of the farming unit or the household. The merits of this change aside, its adoption would have fundamentally altered the purpose of the program. In the absence of support for the new purpose, the proposal was largely rejected out of hand.

This lesson is particularly germane at a time of such significant change. The principal lesson of this experience, as I interpret it, is *not* that the traditional purpose of farm policy has inherently greater merit than other competing purposes and farm programs should, therefore, not be applied to other aims. Rather, the lesson is that farm policy and other objectives are frequently incompatible to the degree that linking them undercuts the effectiveness of the program, usually to the disadvantage of the subsidiary objective. At the least, future policy should be framed in recognition of this inherent conflict.

Current Situation and Future Outlook

Policy formulation is also governed by more immediate considerations. While the overall framework of U.S. farm policy has remained largely the same over the past half century, there have been frequent changes at the program level. Many of these changes have been in response to key features of the near-term economic and political situation. Five features of the current situation that are likely to be of particular influence in the coming farm bill debate are described below.

The Budget

The cost of the commodity programs has been reasonably well-behaved in recent years. Though it rose to $16 billion in fiscal year 1993, it is expected to be around $10 billion in fiscal year 1995 and, under current policy, to remain around $8 to $10 billion into the foreseeable future. In comparison with other entitlement and mandatory spending programs, the cost of commoity programs is small, accounting for less than 1 percent of the fiscal 1995 budget.

The principal problem, however, has less to do with the cost of farm programs than with the intractability of the overall federal budget deficit and the implications of this for the general economy. The budget agreement that barely passed Congress last year (with help from the economic recovery), has, for the first time in several years, reversed the growth in the size of the deficit. Having declined from $290 billion in fiscal 1992 to $202 billion in fiscal 1994, the deficit is expected to retreat still further to $162 billion in fiscal 1995.

At that point, however, it changes direction. Absent significant reductions in the rate of growth in the cost of Medicare and Medicaid, the deficit again begins growing in 1996 and within six years will have doubled to record levels with no downturn in sight. Lack of significant progress in reducing the cost of publicly-provided health care within the next year will intensify efforts to reduce the cost of other programs, including farm programs.

While the reduced size of the farm program budget makes it a less inviting target, the pressure to hold, if not reduce, program costs will remain intense. This has several implications. First, new policy initiatives can only be funded at the expense of existing programs. Second, administrative decisions made in the budget-making process—for example, whether the budget for the Conservation Reserve Program (CRP) is included in the baseline—could have a major impact on the outcome of the farm bill debate. Third, there will likely be increased attempts to evade these fiscal constraints by shifting the incidence of cost from taxpayers to consumers.

State of the Farm Economy

The economic health of the farm sector has always been a key factor in shaping farm legislation, though more so in times of trouble than in times of relative prosperity. As we approach the 1995 farm bill debate, three features of the farm economy could affect the debate in varying degrees.

First, the overall farm economy is generally sound despite weak commodity prices in some sectors. Agriculture has rebounded strongly from the conditions that prevailed a decade ago. Those farms that have achieved an efficient scale of operation and are well-managed appear to be earning a competitive rate of return on their labor and capital. Luther Tweeten argues that the farming industry is closer to long-term equilibrium than at any time in recent decades (Tweeten, p. 24). From the standpoint of the overall economic health of agriculture, there is no compelling reason to deviate from current policy.

A second feature that is not well reflected in industry-wide numbers is the rapid structural change that is occurring in some commodities. The almost revolutionary changes underway in the pork industry are the most dramatic example, but significant structural changes continue to reshape the dairy industry and are on the horizon for some crops. The national policy issues associated with these structural changes are not yet clearly defined. To date, state and local governments have been more directly affected, particularly in the case of the hog industry. Increased producer interest in various forms of collective action and in self-help measures is, in part, a reaction to these structural changes.

A third feature is the issue of agricultural land use and the future role of acreage set-asides. This issue will probably attract as much attention in the coming farm bill debate as any other single issue. The increased use of annual acreage retirement programs during the 1980s, combined with the adoption of the CRP in 1985, has removed 50 to 60 million acres of cropland from production in recent years. The CRP, which is responsible for more than 36 million acres of the total, has idled acreage for periods of at least ten years. The program has been popular with farmers and is credited with reducing U.S. cropland erosion by 22 percent (U.S. Department of Agriculture, 1994a. p. 5).

When U.S. policy turned to the aggressive use of acreage retirement measures in the mid-1980s, domestic markets were burdened with excessive supplies of most crops. Since then, however, the situation has changed significantly. Trends in the supply-demand situation for corn during the last ten crop years are illustrative of what has occurred. Even with the second largest corn crop on record forecast to go in the bins this fall, production will be only 4.3 percent above the level of 1985-1986. The trends in utilization over this period, however, have risen at a substantially faster pace. Comparing the most recent forecasts for the 1994-1995 crop year with the situation in 1985-1986, feed use is 28.8 percent higher; food, seed, and industrial use is up by 48.4 percent; and exports are expected to be 22.3 percent higher. In other words, while we have added less than 350 million bushels to production between these crop years, utilization has risen by nearly 2 billion bushels. The net result of these trends, not surprisingly, is that ending stocks have moved sharply lower. And while this year's large crop is forecast to return stocks to a more comfortable level, they will still be less than half the level of 1985-1986.

If the United States is to become a more aggressive participant in world grain and oilseed markets—and there is little option but for it to do so—it will be necessary to reconsider the role of acreage retirement, particularly the long-term retirement of productive cropland that is not environmentally fragile. Growth in the livestock sector, and in exports of livestock products in particular, is dependent on a relatively abundant and stable source of feedstuffs. If this is going to happen, a more expansive policy will be required.

Changing International Trade Focus

As the record of the past twenty years demonstrates, U.S. agriculture is heavily dependent on export sales. With the adoption of the North American Free Trade Agreement (NAFTA), the expected approval of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), and the prospect of further trade liberalization in the future, U.S. farm policy is entering a new era. It is an era that will require significant choices on the part of U.S. policymakers. Two of these choices will arise in deliberations over the 1995 farm bill.

The most immediate decision is to determine how the United States can successfully compete with its principal competitors during the transition period that lies ahead. Under the Uruguay Round agreement, over the next six years some trade barriers will be reduced, some will be eliminated, and still others will be largely unaffected. Furthermore, a wide array of agricultural support measures that are considered non-trade distorting under the agreement—e.g., conservation, market development and promotion, extension and education, crop insurance, etc.—are exempt from restriction under GATT. Even when all terms of the new agreement are fully implemented, substantial distortions will remain. Policymakers will, therefore, have to determine both the path of disengagement from the use of traditional export subsidies as well as which, if any, new tools will be adopted to replace these subsidies. Our major competitors in the international market are almost certainly at work on their strategies.

In addition, the United States will have to determine how far it will go in adapting its domestic policies to increase its international competitiveness. It will become increasingly harder to follow the middle course we are now pursuing. Though it possibly offers less instability and dislocation, it does so at the expense of slower growth, more unused capacity, and, over the long-run, reduced profitability.

Farm Policy and National Priorities

Farm policy has not been high in the national consciousness for a long time. Production agriculture is too far removed from the daily lives of most citizens and the nature of the policy issues too esoteric and too complicated to attract much public attention. As a result, debates over farm policy are of little interest to most voters and, therefore, of little interest to their elected representatives as well.

Linkages of farm policy to national issues are important, nonetheless. It is these linkages that make possible the coalitions that have been so important to the passage of farm legislation historically. But most issues at the top of the national agenda are, at best, marginally related to agriculture. One possible link is between employment growth and the expanded use of agricultural resources. A more expansive farm policy could result in additional job growth. For example, USDA has estimated that returning 63 percent of CRP acreage to production over the next eight years would generate about 94,000 jobs nationwide (U.S. Department of Agriculture, 1994b, p.24).

Food safety, domestic food assistance, and the relationship of diet and health are issues on the national agenda, though not at the top. Concern over food safety has ranked high in recent public opinion polls among urban residents. Domestic food assistance programs have historically provided a bridge between farm and urban constituencies, though the relationship is not in good repair. While the effect of diet on health is an issue of concern to many consumers, beyond the recently-adopted labeling requirements, the issue lacks policy focus. Whether any of these food issues, or others, will offer an opportunity to build support for farm policy remains to be seen.

The one issue with national visibility and established constituencies that can and almost certainly will be linked to farm policy in the coming debate is environmental protection. Agriculture and the environment have been linked in a policy sense for a long time. But the policy measures that were adopted in 1985 and again in 1990 gave the environmental issue an even greater prominence and one that is likely to be refined if not enlarged in the 1995 farm bill. While the several programs with environmental objectives that have been adopted over the past ten years have been judged successful in varying degree, they represent more a beginning than an end to the environmental agenda.

Funding limits ensure that the coming debate over the role of agriculture in environmental protection will be intense. Nonetheless, there are numerous indications that the debate is assuming a more constructive tone and that the groundwork for more effective solutions is being laid. Experience with the design and implementation of the CRP suggests the need both to define environmental objectives with greater precision and to more carefully target resources to accomplish these objectives. The debate is also being broadened to include the relationship of farm profitability to environmental protection and to treat production units as systems. This is exemplified by the National Research Council's recent excellent volume on soil and water quality report from their Committee on Long-Range Soil and Water Conservation, chaired by Sandra Batie (National Research Council).

The Political Setting

The change in administration in 1992, combined with the accelerating turnover among members of Congress, means that for many policymakers, the deliberations in 1995 will be their first farm bill. At least thirty-one of the forty-eight members of the House Agriculture Committee will never have participated in the debate of a farm bill. If the past is any indication, this number will be even larger following the November election. Increasingly, new members of the House Committee represent constituencies that are less interested in commodity programs and more interested in employment and services in rural areas, food assistance programs, and protection of the environment. The changing complexion of the Congress will both slow the process and make the outcome less predictable.

The position of the Clinton administration on farm policy has been slow in forming, due in part to the absence of any precipitating events and, in part, to neglect. But this appears to be changing. The debate over NAFTA last year and GATT this year, combined with several trade and commodity program decisions, has given agriculture a higher profile, particularly among economic counselors in the White House.

To the extent an administration position can be discerned at this early stage, it is to follow a policy that furthers U.S. competitiveness in world markets; continues to move toward greater use of markets and a wider latitude for producer decisions; and reduces program costs. There is little indication that the administration will embrace any very radical change from current programs given that these programs are relatively well received within the farm community. With 1995 being the eve of a presidential election year, the odds of major change are even less.

While there is little indication at this point that policymakers in either Congress or the administration are considering major policy changes, there is a flurry of activity on the part of interests representing producers, agribusiness and environmentalists, among others, to develop policy options. This activity seems to be driven by a resignation on the part of producer interests that budget constraints, environmental requirements, and liberalized world markets are eventually going to force major changes. Environmental interests, having linked their agenda to farm policy in 1985 and 1990, want to avoid any loss of influence, and, at the same time, would like to extend the focus to a broader array of environmental issues. The interests of agribusiness are diverse but, for the most part, they see advantage in an acceleration of the current trend toward a more market-oriented policy.

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